

## MEMORANDUM



TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

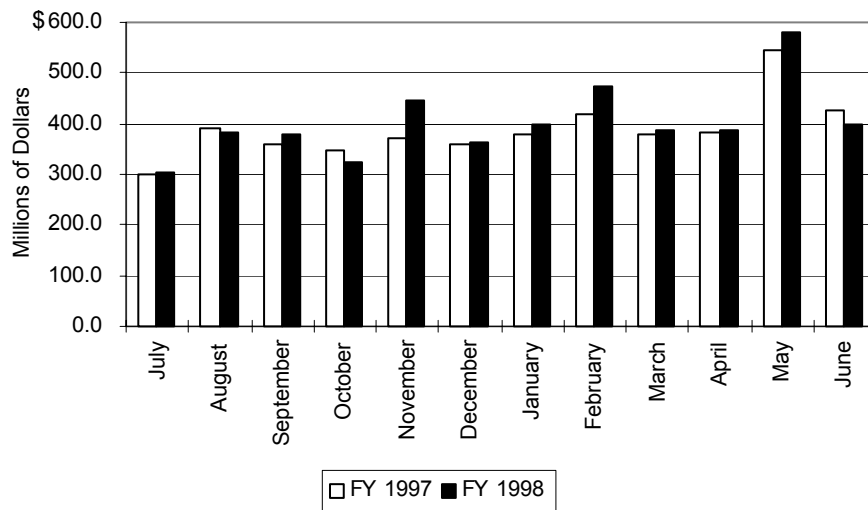
FROM: Dennis C. Prouty

DATE: July 1, 1998

### General Fund Receipts Through June 30, 1998

The attached spreadsheet represents total FY 1998 General Fund receipts, with comparable figures for FY 1997. These can be compared to the latest FY 1998 estimate (\$4.846 billion) set by the Revenue Estimating Conference (REC) on April 10, 1998. The estimate represents an increase of \$197.6 million (4.3%) compared to FY 1997. Receipts for FY 1998 were 3.9% and did not meet the REC estimate of 4.3%.

**Monthly General Fund Receipts - FY 1997 v. FY 1998**

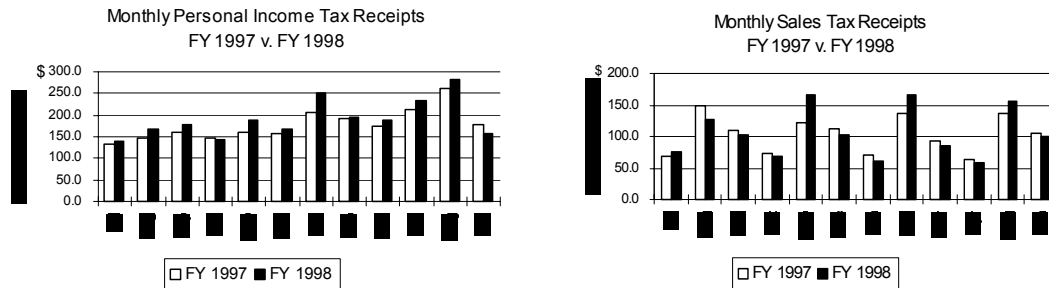


### June 1998 Compared to June 1997

Total General Fund receipts collected in June were 6.3% lower compared to June 1997. Special tax receipts showed a decrease of 6.7%. Personal income tax receipts fell 11.5%. Sales tax receipts fell 3.8%. Use tax receipts increased 12.7%, and corporate income tax receipts were 2.5% lower than June 1997.

## FY 1998 Compared to FY 1997

Fiscal Year 1998 revenue growth increased by \$183.1 million (3.9%) compared to FY 1997. This is below the current REC estimate of 4.3% by \$14.5 million for FY 1998. The primary cause of the lower than expected growth was the failure of personal income tax receipts to meet the June 1997 level.



**Gross personal income tax** revenues received in June were \$20.3 million (11.5%) lower than June 1997. Actual FY 1998 receipts exhibited strong growth with an increase of 7.8% compared to the FY 1997 amount, although a majority of the growth was experienced during the first seven months of FY 1998. The primary cause of lower than expected growth in personal income tax receipts is withholding payments, which are \$79.7 million (4.9%) greater than FY 1997. Although FY 1998 withholding payments exhibited strong growth, the effect of the 10.0% income tax cut can clearly be seen in withholding tax receipts. The June growth rate was negative, with withholding payments decreasing by 7.2% compared to June 1997. This trend is expected to continue through the first seven months of FY 1999, until the full year's effect of the 10.0% income tax cut is experienced.

Estimate payments showed lower than expected growth in June, posting a loss of \$8.7 million (24.4%) compared to June 1997. Actual FY 1998 growth in estimate payments stands at \$51.7 million (18.5%), primarily due to exceptionally strong January growth of \$41.8 million (57.2%). Gains in estimate payments can be attributed to both the strong year in the stock market and the federal capital gains tax rate change.

Return payments showed negative growth in June, although the dollar change was minor (\$1.4 million). The strong April and May performance erased the year-to-date negative growth experienced through February. Actual FY 1998 return payments are \$33.9 million (14.6%) above the FY 1997 amount.

The REC FY 1998 income tax estimate of \$2.295 billion represents a projected increase of 8.1% compared to FY 1997. Actual FY 1998 income tax revenues were \$2.288 billion, which is \$6.5 million below the REC estimate.

**Sales tax** receipts in June fell below last year's level by \$4.0 million (3.8%). All of the monthly loss is due to the change in the method of local option tax payments. As directed by HF 729 (Local Option Taxes Administration Act), the Department of Revenue and Finance began making monthly rather than quarterly distributions. Actual FY 1998 receipts are \$34.4 million (2.8%) above last year's level. The REC estimate for FY 1998 sales tax receipts is \$1.275 billion, which represents an increase of 3.0% compared to FY 1997.

**Corporate income tax** receipts in June were \$1.2 million (2.5%) lower than June 1997. On a dollar basis, estimate payments were the primary cause of negative growth for the month. Estimate payments received in June were \$4.7 million (10.0%) less than June 1997. With the weak June growth, actual FY 1998 corporate income tax receipts concluded the year \$28.1 million (8.8%) lower than FY 1997.

The April REC projected FY 1998 corporate income tax receipts would total \$295.0 million, a decrease of \$23.8 million (7.5%) compared to FY 1997.

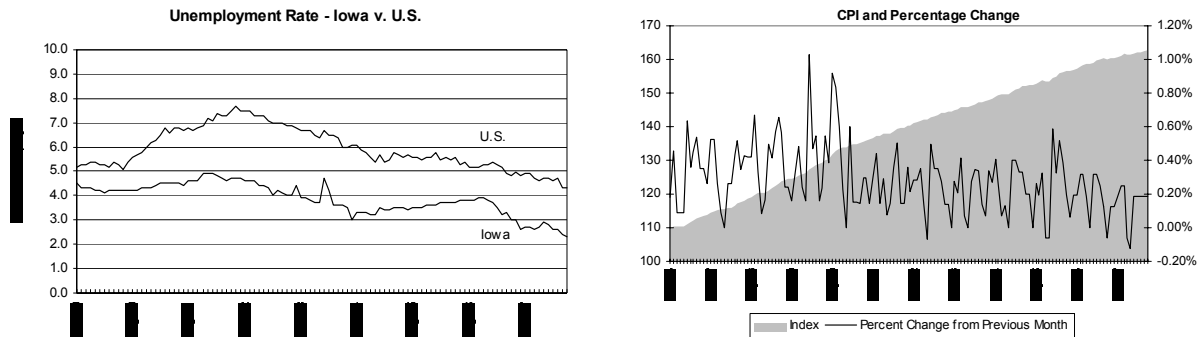
**Racing and gaming** receipts reached their statutory cap of \$60.0 million in January 1998. All racing and gaming receipts in excess of \$60.0 million are deposited in the Rebuild Iowa Infrastructure Fund. As a result, activity in these accounts has little direct impact on the General Fund because the receipts have exceeded the \$60.0 million threshold. The April REC estimated that \$79.9 million from this source would be deposited to the Infrastructure Account in FY 1998.

**Institutional payments** in June were \$1.6 million (18.0%) lower than June 1997. The loss is primarily attributable to the change enacted in HF 715 (Human Services Appropriations Act) that prevents institutional reimbursements at the Glenwood State Hospital-School from being deposited into the General Fund. However, there is a corresponding reduction in appropriations as well from this provision.

### Status of the Economy

The seasonally adjusted percent unemployed for the State fell from the 2.4% rate in April to 2.3% in May. The unemployment rate a year ago was 3.0%. Iowa's total May employment registered 1,545,200, up from April's level of 1,544,700. The number of unemployed persons in Iowa stood at 36,600 in May, which is a record low and down from the April level of 38,200. The U.S. unemployment rate remained unchanged in May from April's level of 4.3%.

Consumer prices in May increased 0.2%. The Consumer Price Index (CPI-U) through May 1998 was 162.8 (1983=100), which is 1.4% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through May 1998.



Information related to State General Fund receipts is available electronically through the Fiscal Bureau's Electronic Publishing of Information System (EPI). If you have questions regarding this service, you may contact Glen Dickinson (515-281-4616) or Larry Sigel (515-281-4611).

GENERAL FUND RECEIPTS - FY 1998 vs. FY 1997						ESTIMATED GENERAL FUND RECEIPTS in millions of dollars			
July 1, 1997, through June 30, 1998, in millions of dollars						FY 97 Actual Compared to FY 98 REC Estimate			
	FY 1997	FY 1998	Year to Date		June	Actual	Estimate		
			FY 1998	% CHANGE	% CHANGE	FY 1997	FY 1998	% CHANGE	
Personal Income Tax	\$ 2,123.1	2,288.4		7.8%	-11.5%	\$ 2,123.1	\$ 2,294.9	8.1%	
Sales Tax	1,237.4	1,271.8		2.8%	-3.8%	1,237.4	1,275.0	3.0%	
Use Tax	223.1	243.0		8.9%	12.7%	223.1	245.0	9.8%	
Corporate Income Tax	318.8	290.7		-8.8%	-2.5%	318.8	295.0	-7.5%	
Inheritance Tax	109.3	109.8		0.5%	-28.3%	109.3	107.2	-2.0%	
Insurance Premium Tax	106.0	108.9		2.7%	6.7%	106.0	110.0	3.8%	
Cigarette Tax	94.6	94.6		0.0%	10.8%	94.6	97.0	2.6%	
Tobacco Tax	5.7	6.1		7.0%	0.0%	5.7	6.2	8.6%	
Beer Tax	12.5	12.7		1.6%	0.0%	12.5	12.5	0.2%	
Franchise Tax	35.6	36.4		2.2%	27.0%	35.6	37.6	5.5%	
Miscellaneous Tax	1.2	1.3		8.3%	566.7%	1.2	1.3	9.1%	
Total Special Taxes	\$ 4,267.3	\$ 4,463.7		4.6%	-6.7%	\$ 4,267.3	\$ 4,481.7	5.0%	
Institutional Payments	104.3	70.2		-32.7%	-18.0%	104.3	71.4	-31.5%	
Liquor Transfers:									
Profits	28.8	31.0		7.6%	78.6%	28.8	30.0	4.2%	
7% Gross Revenue	9.0	9.0		0.0%	0.0%	9.0	9.0	0.0%	
Interest	18.0	30.6		70.0%	72.7%	18.0	27.5	53.1%	
Fees	63.6	65.4		2.8%	22.1%	63.6	65.5	3.0%	
Judicial Revenue	42.9	42.9		0.0%	-40.0%	42.9	43.9	2.2%	
Miscellaneous Receipts	53.9	58.1		7.8%	-37.7%	54.0	56.5	4.7%	
Racing and Gaming Receipts	60.0	60.0		0.0%	N/M	60.0	60.0	0.0%	
TOTAL RECEIPTS	\$ 4,647.8	\$ 4,830.9		3.9%	-6.3%	\$ 4,647.9	\$ 4,845.5	4.3%	